

## Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended and P.A. 71 of 1918, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name TOWNSHIP OF CLARENDON	County CALHOUN
Fiscal Year End 3/31/07	Opinion Date 8/26/07	Date Audit Report Submitted to State 9/28/07	

We affirm that:

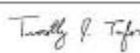
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☐ ☒ The local unit is free of repeated comments from previous years.
  - ☐ ☒ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) RUMSEY & WATKINS, P.C.		Telephone Number 517-279-7931	
Street Address 20 TIBBITS PLAZA		City COLDWATER	State MI
Authorizing CPA Signature 		Printed Name TIMOTHY J. TAYLOR	License Number 1101015828

**TOWNSHIP OF CLARENDON  
CALHOUN COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS**

**MARCH 31, 2007**

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# **Rumsey & Watkins, P.C.**

**Certified Public Accountants and Business Advisors**

20 Tibbits Plaza \* Coldwater, Michigan 49036

Phone (517) 279-7931 \* Fax (517) 278-7087

## **INDEPENDENT AUDITOR'S REPORT**

**To the Members of the Township Board  
Township of Clarendon  
Calhoun County, Michigan**

**August 26, 2007**

We have audited the accompanying financial statements of each major fund of the Township of Clarendon as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit, also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying financial statements do not present government-wide financial statements to display the financial position and changes in the financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the Township's governmental activities are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township of Clarendon as of March 31, 2007 or the changes in its financial position for the year then ended.

**To the Members of the Township Board  
Township of Clarendon  
Calhoun County, Michigan**

**August 26, 2007**

The budgetary comparison schedule, as identified in the table of contents, is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Township of Clarendon's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not include a management's discussion and analysis, which would present an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

A handwritten signature in dark ink, reading "Rumsey J. Watkins PC". The signature is written in a cursive, flowing style.

**RUMSEY & WATKINS, P.C.**

**TOWNSHIP OF CLARENDON**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**MARCH 31, 2007**

	<b>General Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 54,295
Investments	56,002
Taxes receivable	7,580
Due from other funds	4,994
Prepaid expenses	6,996
	<hr/>
Total assets	\$ 129,867
	<hr/> <hr/>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Accrued payroll	\$ 400
<b>FUND BALANCE</b>	
Undesignated	129,467
	<hr/>
Total liabilities and fund balance	\$ 129,867
	<hr/> <hr/>

See Notes to Financial Statements

**TOWNSHIP OF CLARENDON**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED MARCH 31, 2007**

	<b>General Fund</b>
<b>REVENUES</b>	
Taxes	\$ 66,624
Tax administration fee	10,195
Licenses and permits	5,630
State shared revenue	76,010
Charges for services	8,460
Interest earned	1,670
Reimbursements	4,040
Other	37
	<hr/>
Total revenues	172,666
<b>EXPENDITURES</b>	
General government	87,080
Public safety	63,935
Public works	1,238
	<hr/>
Total expenditures	152,253
	<hr/>
Excess of revenues over expenditures	20,413
<b>FUND BALANCE - BEGINNING</b>	<hr/> 109,054
<b>FUND BALANCE - ENDING</b>	<hr/> <hr/> \$ 129,467

See Notes to Financial Statements

**TOWNSHIP OF CLARENDON**  
**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**MARCH 31, 2007**

	<u><b>Agency Funds</b></u>
<b>ASSETS</b>	
Cash	\$     13,099
	<u>                    </u>
<b>LIABILITIES</b>	
Due to other funds	\$       4,994
Due to others	8,105
	<u>                    </u>
Total liabilities	\$     13,099
	<u>                    </u>

See Notes to Financial Statements



**TOWNSHIP OF CLARENDON**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31, 2007**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Township of Clarendon conform to generally accepted accounting principles of the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

**REPORTING ENTITY:**

The Township operates under an elected board of five members and provides primarily fire protection and road maintenance and construction to the local residents. The financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. The criteria includes oversight responsibility, scope of public service and special financing relationships. There were no component units considered, under this criteria, to be included in these financial statements.

**FUND FINANCIAL STATEMENTS:**

Separate financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION:**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, claims and judgments are recorded when payment is due.

The Township reports the following governmental funds:

**General Fund** is the operating fund of the Township. It is used to account for all the Township's financial resources not required to be accounted for in another fund.

## TOWNSHIP OF CLARENDON

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED MARCH 31, 2007

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

##### **MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION: – Continued**

Additionally, the Township reports the following fund types:

**Agency Funds** are used to account for assets held in trust or as an agent for others. The Tax Collection Fund and Agency Fund are custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

##### **ASSETS, LIABILITIES AND NET ASSETS**

**Cash and Investments** - Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Capital Assets** - The Township implemented portions of the new financial model, as required by the provisions of GASB 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments ("GASB 34"). A portion of GASB No. 34 not implemented by the Township is the government-wide financial statements which display the full accrual financial position and changes in financial position of its government activities. Since the Township did not present government-wide financial statements, the governmental activities capital assets are not reported within the Township's financial statements as of March 31, 2007.

**Fund Balance** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The Township does not have any reserved or designated fund balances.

**Accounting Change** - In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. The Township has implemented portions of GASB 34.

However, the Township did not present government-wide financial statements to display the financial position and changes in financial position using full accrual accounting for all the Township's activities. These statements would present the Township's governmental activities. In addition, the Township did not include a management's discussion and analysis, which would present an analysis of the financial performance for the year.

## **TOWNSHIP OF CLARENDON**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED MARCH 31, 2007**

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

##### **ASSETS, LIABILITIES AND NET ASSETS – Continued**

##### **Accounting Change – Continued**

Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in the government-wide financial statements for the Township's governmental activities are not reasonably determinable. The Governmental Accounting Standards Board has determined that the management's discussion and analysis is necessary to supplement, although not required to be part of, the basic financial statements.

Because of the effects of the matters discussed in the preceding paragraphs, the Township's financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township of Clarendon as of March 31, 2007 or the changes in its financial position for the year then ended.

##### **BASIS OF BUDGETING:**

The Township adopted their annual budget based on the modified accrual method of accounting. Expenditures were estimated by department level. The Township included an estimated beginning fund balance within the approved budget. Once a budget is approved it can be amended at the department level. Amendments are presented to the Board at their regular meetings. Each amendment must have Board approval. Such amendments are reflected in the official minutes of the Board, and are not made after fiscal year end as dictated by law. Revisions to the budget were not made during the year.

##### **ENCUMBRANCE ACCOUNTING:**

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances at year end may be reappropriated in the next year. No reservation of fund balance equal to outstanding encumbrances at year end is required.

##### **USE OF ESTIMATES:**

The Township uses estimates and assumptions in the preparation of the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenditures.

## TOWNSHIP OF CLARENDON

### NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED MARCH 31, 2007

#### NOTE B - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government of Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The Township has designated financial institutions for the deposit of Township funds and has authorized the investment in certificates of deposit. The accounts maintained are checking, savings and certificates of deposit and are in accordance with statutory authority. The interest rates of the checking and savings accounts are at variable daily rates. The certificates of deposit are currently earning an interest rate of 5.0%.

Investments consist of certificate of deposits with an original maturity date of greater than three months. The investments are carried at cost, which approximates market value.

Cash and investments, as of March 31, 2007, are classified in the accompanying financial statement as follows:

Governmental Funds	
Cash and cash equivalents	\$ 54,295
Investments	<u>56,002</u>
Total Governmental Funds	110,297
Fiduciary Funds	
Cash	<u>13,099</u>
Total cash and investments	<u><u>\$ 123,396</u></u>

## **TOWNSHIP OF CLARENDON**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED MARCH 31, 2007**

#### **NOTE B - DEPOSITS AND INVESMENTS - Continued**

**Interest rate risk** – In accordance with its investment policy, the Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Township's cash requirements.

**Credit risk** – State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). The Township does not allow direct investment in commercial paper or corporate bonds.

**Concentration of credit risk** – The Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk for deposits** – In the case of deposits, this is the risk that in the event of an institutional failure, the Township's deposits may not be recovered. As of March 31, 2007, \$27,420 of the Township's \$127,420 of cash and investments was exposed to custodial credit risk because it was uninsured and uncollateralized. Certificates of deposit and money market accounts are included in the above totals.

**Foreign currency risk** – The Township is not authorized to invest in investments, which have this type of risk.

#### **NOTE C – TAXES RECEIVABLE**

The Township is a general law township and levies property taxes on December 1 of each year. They are collected by the Township's treasurer from December 1 to February 28.

Taxes receivable represent real property taxes and administrative fees returned delinquent to the County of Calhoun. The real property taxes and administrative fees in the amount of \$7,580 will be paid to the Township by the County of Calhoun in April 2007.

## **TOWNSHIP OF CLARENDON**

### **NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED MARCH 31, 2007**

#### **NOTE D – DUE FROM (TO) OTHER FUNDS**

The due from (to) other funds, as of March 31, 2007, for the Township are as follows:

General Fund:

Due from Tax Collection Fund	\$ 4,832
Due from Agency Fund	<u>162</u>
Total due from (to) other funds	<u>\$ 4,994</u>

#### **NOTE E – COMMITMENTS**

The Township has entered into a commitment as of March 31, 2007 with the Township of Tekonsha and Homer to provide fire protection at a remaining contract expense of \$16,320 and \$30,782 respectively. These contracts are negotiated from year to year.

#### **NOTE F – RISK MANAGEMENT**

The Township of Clarendon is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries. The Township has purchased commercial insurance for the coverage of the above discussed events.

#### **NOTE G – CONTINGENCY**

The Township is involved with a grievance that is set for arbitration in Michigan Tax Tribunal the grievance currently is in abeyance. At this time, an assessment of any potential loss, if any, is a change in taxable valuation of property. Township plans to defend this grievance vigorously and it is the opinion of Township that the outcome will have no material adverse effect on the financial position of the Township.

**TOWNSHIP OF CLARENDON**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED MARCH 31, 2007**

	<b>Budgeted Amounts</b>		<b>Actual</b>
	<b>Original</b>	<b>Final</b>	
<b>REVENUES</b>			
Taxes	\$ 73,727	\$ 73,727	\$ 66,624
Tax administration fee	11,000	11,000	10,195
Licenses and permits	1,575	1,575	5,630
State shared revenue	82,932	82,932	76,010
Charges for services	11,058	11,058	8,460
Interest earned	1,278	1,278	1,670
Reimbursements	9,619	9,619	4,040
Other	-	-	37
Total revenues	191,189	191,189	172,666
<b>EXPENDITURES</b>			
General government			
Township board	32,980	32,980	20,212
Supervisor	7,100	7,100	7,000
Elections	3,000	3,000	2,223
Assessor	9,850	9,850	9,530
Clerk	10,400	10,400	10,652
Treasurer	13,650	13,650	15,243
Cemetery	23,500	23,500	22,220
Total General government	100,480	100,480	87,080
Public safety			
Fire protection	55,500	55,500	57,081
Zoning and building	8,300	8,300	6,854
Total Public safety expenditures	63,800	63,800	63,935
Public works	2,075	2,075	1,238
Total expenditures	166,355	166,355	152,253
Excess of revenues over expenditures	24,834	24,834	20,413
<b>FUND BALANCE - BEGINNING</b>	94,797	94,797	109,054
<b>FUND BALANCE - ENDING</b>	<u>\$ 119,631</u>	<u>\$ 119,631</u>	<u>\$ 129,467</u>

**TOWNSHIP OF CLARENDON**  
**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**  
**FOR THE YEAR ENDED MARCH 31, 2007**

**NOTE A - COMPLIANCE WITH STATE REGULATIONS**

A comparison of actual results of operations to the budgeted amounts, at the level of control adopted by the Township, for the General Fund is presented as Required Supplemental Information. The budget is adopted on the department level.

During the year, the Township incurred expenditures that were in excess of the amounts budgeted, as follows:

General Fund	Final Budget	Actual
Clerk	\$ 10,400	\$ 10,652
Treasurer	\$ 13,650	\$ 15,243
Fire protection	\$ 55,500	\$ 57,081



**TOWNSHIP OF CLARENDON**  
**OTHER SUPPLEMENTAL INFORMATION**  
**GENERAL FUND**  
**STATEMENT OF EXPENDITURES COMPARED TO BUDGET**  
**FOR THE YEAR ENDED MARCH 31, 2007**

	<b>Final Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>GENERAL GOVERNMENT</b>			
Township board	\$ 32,980	\$ 20,212	\$ (12,768)
Supervisor	7,100	7,000	(100)
Elections	3,000	2,223	(777)
Assessor	9,850	9,530	(320)
Clerk	10,400	10,652	252
Treasurer	13,650	15,243	1,593
Cemetery	23,500	22,220	(1,280)
	<hr/>	<hr/>	<hr/>
Total General government	100,480	87,080	(13,400)
<b>PUBLIC SAFETY</b>			
Fire protection	55,500	57,081	1,581
Zoning and building	8,300	6,854	(1,446)
	<hr/>	<hr/>	<hr/>
Total Public safety expenditures	63,800	63,935	135
<b>PUBLIC WORKS</b>	<hr/>	<hr/>	<hr/>
	2,075	1,238	(837)
	<hr/>	<hr/>	<hr/>
Total expenditures	<u>\$ 166,355</u>	<u>\$ 152,253</u>	<u>\$ (14,102)</u>

**TOWNSHIP OF CLARENDON**  
**OTHER SUPPLEMENTAL INFORMATION**  
**FIDUCIARY FUNDS**  
**COMBINING STATEMENT OF NET ASSETS**  
**MARCH 31, 2007**

	<u>Agency</u>	<u>Tax Collection</u>	<u>Total</u>
<b>ASSETS</b>			
Cash	\$ 162	\$ 12,937	\$ 13,099
<b>LIABILITIES</b>			
Due to other funds	\$ 162	\$ 4,832	\$ 4,994
Due to others	-	8,105	8,105
Total liabilities	\$ 162	\$ 12,937	\$ 13,099

# **Rumsey & Watkins, P.C.**

**Certified Public Accountants and Business Advisors**

20 Tibbits Plaza \* Coldwater, Michigan 49036

Phone (517) 279-7931 \* Fax (517) 278-7087

August 26, 2007

To the Members of the Township Board  
Township of Clarendon  
Calhoun County, Michigan

In planning and performing our audit of the financial statements of each major fund of the Township of Clarendon as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Township of Clarendon's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the following deficiencies constitute material weaknesses:

1. The Township does not have control procedures in place or a member of management with sufficient skills to prepare financial statements in accordance with U.S. generally accepted accounting principles. As is common with smaller entities the Township relies on its independent external auditors to assist in the preparation of the financial statements. Auditors by definition cannot be considered part of the Township's internal controls. The Township has evaluated the cost vs. benefit of preparing the financial statements and has determined it is in the best interest of the Township to outsource this task to its external auditors.
2. Due to the size of staff the Township lacks adequate segregation of duties. We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the cost vs. benefit relationship may not justify the addition of accounting staff to accomplish the desired segregation.
3. The Clerk is required to record the revenues and expenditures paid out by the Treasurer, and should also prepare and maintain the journals and ledgers necessary to reflect assets, liabilities, revenues, and expenditures for the Township. During our audit, the account balances in the general ledger did not agree with the journals. We recommend the Township receive training to become proficient in recording the Township financial transactions in QuickBooks.
4. During the course of the audit, we noted that bank reconciliations for the General and Tax Collection Fund bank accounts were not completed. Bank reconciliations must be completed on a monthly basis and reconciled to the general ledger.

In addition, we noted other matters involving the internal control and its operation that we would like to comment on further:

### **COMPLIANCE WITH STATE REGULATIONS**

The State of Michigan requires local units not incur expenditures in excess of the amount appropriated. The Township, during the year ended March 31, 2007, incurred expenditures in excess of amounts appropriated at the department level. We suggest the Township make budget amendments to adjust appropriations before expenditures are made.

### **PROPERTY TAXES**

The State of Michigan requires that Townships disburse property tax collections within 10 business days of the 1<sup>st</sup> and 15<sup>th</sup> day of each month. During the audit, we noted several instances when taxes were disbursed more than 10 business days after the required dates. Care should be taken to insure the property taxes are disbursed to the appropriate local unit, in a timely fashion.

## **POLICIES AND PROCEDURES**

During our audit the Township was unable to locate copies of certain policies and procedures required by the Department of Treasury. The Township must locate and provide copies of the required policies and procedures or consider readopting the procedures during a Township meeting. The Township should have on file a copy of policies and procedures required by the State of Michigan for the Township's records.

This communication is intended solely for the information and use of management, Township of Clarendon Board Members, State of Michigan and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Rumsey & Watkins P.C.".

**RUMSEY & WATKINS, P.C.**